

APPENDIX E

DIRECT TESTIMONY OF ROBERT K. MCDONALD

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company )  
 )  
Notice of transfer of generating, wholesale )  
marketing and associated assets and entry into )  
related agreements pursuant to )  
Section 16-111(g) of the Illinois Public )  
Utilities Act.

DIRECT TESTIMONY OF ROBERT K. MCDONALD

Q. Please state your name and business address.

A. Robert K. McDonald, Unicom Corporation ("Unicom"), 10 South Dearborn, 37th Floor,  
Chicago, Illinois 60603.

Q. What is your position with Unicom?

A. Vice President.

Q. What are your duties in that position?

A. My major duties are to facilitate and coordinate the development of Unicom's overall corporate strategy as well as to investigate growth opportunities for the corporation, including mergers, acquisitions and other strategic combinations. I am also responsible for assisting in the development of new market institutions as needed. Finally, I am the Unicom project manager for the integration of PECO and Unicom.

Q. Please provide your educational and employment background.

A. I hold a Bachelor of Science and a Masters of Science Degree in Electrical Engineering from the University of Illinois in Champaign and a Masters of Business Administration from the University of Chicago. I began work for Unicom's electric utility subsidiary,

24 Commonwealth Edison Company ("ComEd"), in 1978. During my employment with  
25 ComEd, I held various positions in System Planning, Generation Planning, Division  
26 Engineering, Strategic Analysis, Treasury, Transmission Planning, and finally Strategic  
27 Planning. I became Strategic Planning Vice President in May, 1998. I was elected as a  
28 corporate officer in December, 1999.

29 Q. What is the purpose of your testimony?

30 A. The purpose of my testimony is to discuss ComEd's decision to transfer its nuclear  
31 generating assets to an affiliated generating company ("Exelon Genco"). I will introduce  
32 ComEd, generally, as it currently is structured, and I will discuss the pending merger  
33 involving Unicom and PECO Energy Company ("PECO"). I will explain why ComEd  
34 has decided to transfer its generating assets to Exelon Genco (the "Transfer"), which  
35 specific assets are being transferred, and what the Transfer means for post-merger  
36 operations. In this regard, I will discuss various related contracts and contractual  
37 provisions. I will also discuss why the Transfer will not render ComEd unable to provide  
38 its tariffed services in a safe and reliable manner. I also will present ComEd's plans for  
39 complying with Section 16-128 of the Illinois Public Utilities Act ("Act") relating to  
40 employees at the affected plants. Lastly, I respond to two questions posed by the  
41 Commission in connection with the Company's original, March 16, 2000 Notice  
42 regarding the transfer of the plants.

43 **Overview**

44 Q. Please describe Unicom.

45 A. Unicom, which is based in Chicago, Illinois and has been incorporated since 1994, is a  
46 public company dedicated to meeting the energy needs of residential, commercial,

47 industrial and wholesale customers. Unicom and its subsidiaries have approximately  
48 16,000 employees, \$7 billion in annual revenues, and 182,000 shareholders. Unicom is  
49 the parent holding company to ComEd, its principal subsidiary. Unicom is also parent to  
50 a number of unregulated subsidiaries which are engaged in a variety of energy services  
51 and activities.

52 Q. Please describe ComEd.

53 A. ComEd is engaged in the production, transmission, distribution and sale of electricity to  
54 wholesale and retail customers. ComEd has been providing electricity to customers in  
55 Northern Illinois since 1887, when it was founded as Chicago Edison Company. ComEd  
56 provides service to more than 3.4 million customers (nearly 300,000 are commercial and  
57 industrial customers, and the rest residential) across northern Illinois, or 70 percent of the  
58 state's population, covering approximately one-fifth of the state of Illinois (including the  
59 city of Chicago). ComEd owns and operates the nation's largest nuclear fleet, with over  
60 9,550 MW of generating capacity. In addition to selling energy from these plants to  
61 ComEd's customers, ComEd actively participates in selling energy into the wholesale  
62 market.

63 Q. Please describe PECO.

64 A. PECO is an electric and gas utility serving 1.5 million electric customers and more than  
65 400,000 natural gas customers in the Philadelphia area. PECO has a substantial nuclear  
66 fleet, and also owns and operates coal, natural gas, oil, landfill gas and hydro generating  
67 plants. PECO participates actively in the deregulated marketplace, trading wholesale  
68 power 24 hours a day in 47 states and Canada, purchasing and operating nuclear

69 generation and establishing unregulated ventures in retail energy sales,  
70 telecommunications and utility infrastructure management.

71 Q. Please describe the pending Unicom-PECO merger.

72 A. Unicom and PECO have entered into a definitive agreement providing for a merger of  
73 equals. Unicom will merge with a new holding company affiliate of PECO to form  
74 "Exelon," a new holding company. Exelon will be the parent of, among others, ComEd  
75 and PECO. On November 22, 1999, ComEd notified the Commission of the merger  
76 pursuant to Section 16-111(g) of the Act. Applications related to the merger are pending  
77 before the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission  
78 and the Pennsylvania Public Service Commission. Exelon will also register with the  
79 Securities and Exchange Commission as a holding company subject to regulation under  
80 the Public Utility Holding Company Act of 1935.

81 Q. How does the decision to merge relate to the decision to separate the nuclear assets and  
82 wholesale business from ComEd?

83 A. From Unicom's perspective, the merger is part of our continuing effort to restructure  
84 ComEd's operations and our unregulated ventures to adapt to a new competitive  
85 environment. We believe that intrinsically different markets will develop for generation,  
86 energy services, and transmission and distribution. To succeed in these markets, Unicom  
87 must develop separate organizations with distinct focuses, assets and skills and find  
88 opportunities for growth. The Generation organization will focus on maximizing the  
89 generation and sales of low-cost energy into the wholesale market. The Transmission  
90 and Distribution organization will focus on providing all required energy over a reliable

91 delivery system to its retail customers. The Unregulated Ventures organization will focus  
92 on providing a portfolio of utility-related products and services.

93 The combination with PECO allows Unicom to address all of these concerns. The  
94 merger will allow Unicom to separate ComEd's generation function from the  
95 transmission and distribution operations and to isolate some of the risks inherent in the  
96 generation business. It will focus greater management attention on improving the  
97 operation of the transmission and distribution systems. Finally, the reorganization will  
98 structure operations to ensure the continued financial viability of ComEd. As we have  
99 previously explained to the Commission, ComEd will emerge from the reorganization  
100 stronger, from both managerial and financial perspectives.

101 Q. How will the generation and wholesale marketing functions be separated from the  
102 transmission and distribution operations?

103 A. The separation of the generation and wholesale marketing functions from the  
104 transmission and distribution functions is a central component of the overall  
105 restructuring. All generating resources will be controlled, and all wholesale marketing  
106 will be conducted, by Exelon Genco. ComEd and PECO will operate their respective  
107 wires businesses and will not play a role in wholesale marketing. (Of course, ComEd  
108 will in the future access the wholesale market as a purchaser.) ComEd will retain certain  
109 existing wholesale contracts with municipal customers.

110 Q. Please describe Exelon Genco.

111 A. Exelon Genco will be a wholly-owned subsidiary of Exelon that will contain the  
112 generation resources and wholesale marketing businesses of ComEd and PECO.

113 Q. Please describe the ComEd generation resources and wholesale marketing businesses that  
114 Exelon Genco will assume.

115 A. ComEd's current net generating capability is approximately 9,550 megawatts (MW),  
116 supplied by five operating nuclear generating stations. (ComEd has a sixth nuclear  
117 station, Zion, which has been retired.) In December 1999, ComEd completed the sale of  
118 9,772 MW of fossil plants to Edison Mission Energy ("EME"). The Commission  
119 previously approved that sale in Docket No. 99-0282. In connection with the EME sale,  
120 ComEd entered into certain PPAs with EME. The EME PPAs entitle ComEd to purchase  
121 capacity and energy from EME on specified terms through December 31, 2004.  
122 Prior to the EME sale, ComEd sold fossil plants to affiliates of Dominion Resources, Inc.  
123 ("Dominion") and Southern Company ("Southern"). ComEd had also entered into PPAs  
124 with Dominion and Southern. Additionally, going forward, ComEd has PPAs with  
125 several independent power producers ("IPPs") located in and around its service territory.  
126 I will refer to the PPAs with EME, Dominion, Southern and the IPPs, which are  
127 identified on Schedule 2.1(e) of the Contribution Agreement, as the "Fossil Agreements."

128 ComEd's wholesale marketing business was founded in 1994 to market ComEd's  
129 generation capacity and acquire energy when needed for retail operations. Since that  
130 time, wholesale marketing has been instrumental in acquiring energy to meet  
131 successively higher record demands in ComEd's service territory. It has lowered  
132 ComEd's overall energy supply cost by optimizing the use of wholesale purchases  
133 relative to ComEd's generation capacity. It has also effectively marketed ComEd's  
134 generation, selling over 17 million MWH last year.

135 Q. Please discuss PECO's generating resources and wholesale marketing business.

136 A. PECO has 9,561 MW of generating capability, which, as I mentioned, consists of nuclear,  
137 coal, natural gas, oil, landfill gas and hydro generating plants. PECO also has an interest  
138 in AmerGen, a partnership with British Energy, which was formed in 1997 to acquire  
139 additional nuclear generating assets. Both PECO and British Energy have strong  
140 operating cultures for safety and reliability. AmerGen has acquired (with this  
141 Commission's approval) the Clinton Power Station in southern Illinois.

142 At the heart of PECO's wholesale power business is Power Team -- a five-year  
143 old unit that is a leading, reliable supplier of electricity to other utilities, cooperatives and  
144 marketers all across the continental United States and Canada. Power Team's energy  
145 sales have grown in each of the past five years, and for the first time, wholesale deliveries  
146 exceeded PECO's retail sales in 1998. Power Team also has agreements to market full  
147 output of plants under construction or planned in Texas, Georgia and Oklahoma.

148 Q. What assets will ComEd transfer to Exelon Genco?

149 A. The specific assets ComEd intends to transfer to Exelon Genco are identified and  
150 described in the Contribution Agreement, which is attached to the Notice as Appendix A.  
151 In general, ComEd intends to transfer and/or assign (as applicable) to Exelon Genco: (i)  
152 all six of its nuclear plants, including the land on which they sit and the equipment used  
153 in their operation; (ii) the Company's rights under the Fossil Agreements; (iii) various  
154 fuel supply agreements and other leases and contracts related to the generation business;  
155 (iv) all real and personal property and assets related to and used in the conduct of  
156 ComEd's wholesale marketing business (e.g., computers, trading floor equipment); and  
157 (v) the capital stock of Concomber.



158 ComEd will also transfer to Exelon Genco all assets, including investments, held  
159 in ComEd's decommissioning trusts. ComEd will retain the obligation to collect  
160 unfunded decommissioning cost charges from ratepayers, and to forward such funds to  
161 Exelon Genco.

162 Q. Who will have the obligation to decommission the plants?

163 A. Exelon Genco will have the obligation to decommission the plants.

164 Q. Will ComEd transfer any transmission or distribution assets to Exelon Genco?

165 A. ComEd will not transfer to Exelon Genco any transmission or distribution assets, with the  
166 exception of a synchronous condenser at the Zion station and certain land on which  
167 various facilities sit. ComEd will have the right to control and operate that synchronous  
168 condenser. ComEd will continue to own and operate its other transmission and  
169 distribution assets subject to any current or future obligations to any independent system  
170 operator or regional transmission organization.

171 Q. Will the Transfer adversely affect the reliability of the ComEd nuclear plants?

172 A. No. The Transfer will not negatively affect the operating performance of the nuclear  
173 units. The nuclear units will be under the same direct management after the Transfer as  
174 they were immediately before the Transfer. Moreover, PECO itself brings an admirable  
175 operating record to the table. PECO is recognized as a leading nuclear operator across  
176 the industry and has managed two other plants under service contracts. PECO's  
177 substantial nuclear fleet has set new nuclear performance standards in safety, capacity  
178 factors, refueling efficiency and low operating and maintenance costs, while producing  
179 more than 33 billion kilowatt-hours of nuclear electricity in 1998. Between them,

Unicom and PECO intend to establish in Exelon Genco the single best nuclear operating team in the generation business.

Q. How will ComEd obtain its power supply after the Transfer?

A. A central feature of the Transfer is the PPA, a power supply agreement under which Exelon Genco will supply all of ComEd's requirements from the date of the Transfer through December 31, 2004 (the "Initial Term"), and, in 2005 and 2006, all of ComEd's requirements up to the available capacity of the transferred nuclear units. The PPA will ensure ComEd a reliable source of supply, while at the same time, as I will explain, protecting ComEd from the risk of suboptimal performance of the nuclear units, energy price volatility and many of the financial effects of load loss associated with the transition to a competitive retail market.

Under the PPA, Exelon Genco will be ComEd's sole external source of supply during the Initial Term of the PPA (i.e., through 2004). (ComEd may still, from time to time, employ small generators (known as "distributed generation") throughout its system for reliability purposes, and will still make purchases required under PURPA.) During the Initial Term, Exelon Genco will supply all capacity and energy required by ComEd to serve its load, satisfy applicable reliability requirements, provide ancillary services and satisfy any and all other obligations that ComEd may have. To satisfy ComEd's requirements, Exelon Genco will rely on the same sources of supply that would otherwise be available to ComEd absent the Transfer: the nuclear units, the Fossil Agreements and other market sources.

Subsequent to the Initial Term, in 2005 and 2006, Exelon Genco will serve ComEd's requirements up to the available capacity of the transferred nuclear units.

203 Q. How will capacity and energy be priced?

204 A. ComEd will not pay a separate capacity charge; ComEd will pay only an energy charge.

205 The PPA sets forth a schedule of energy prices, on- and off-peak, by month for the Initial  
206 Term. Prices for the years 2005 and 2006 will be set at then prevailing market rates, and  
207 will be filed with the FERC for the FERC's approval.

208 Q. How were the monthly prices developed?

209 A. The monthly prices were developed using data that reflect ComEd's cost of service  
210 associated with the nuclear units, prices under the Fossil Agreements, and projections of  
211 market prices. The nuclear plant costs reflect both a projected, substantial write-down of  
212 investment in the nuclear plants at closing of the Unicom-PECO merger and the benefit  
213 of the improvement of the nuclear units' operating performance in recent periods.

214 Specifically, the prices assume that the the nuclear plants will operate at an aggregate  
215 capacity factor of 85%, which compares with the historical capacity factor of 69% for the  
216 period 1989 through 1999. In other words, Exelon Genco is giving ComEd the benefit of  
217 an increase in the units' overall capacity factor to a level much higher than that at which  
218 they have historically operated, as well as reflecting the benefit of the reduction in book  
219 investment.

220 Q. Why were prices developed in this manner?

221 A. There are three principal reasons. First, the price of energy provided to ComEd during  
222 the Initial Term is intended to approximate the cost to ComEd of these same sources were  
223 the Transfer never to occur. We are not attempting to effect any increase in cost to  
224 ComEd by moving the nuclear assets and other resources to Exelon Genco. Moreover,

225 the prices will be fixed for the term of the agreement to protect ComEd from any  
226 increases in cost, whether due to operating costs, additional investment or market prices.

227 Second, the Initial Term pricing also allows ComEd's power supply costs to rise  
228 and fall with its load. ComEd will no longer have any fixed power supply costs that it  
229 has to cover regardless of load levels. Rather, ComEd will only be required to pay for  
230 that energy which it needs. If ComEd's load falls, its costs also fall, in proportion to the  
231 reduction in load. This feature affords ComEd's ROE significant protection from risks  
232 associated with the level of switching to other suppliers.

233 Finally, the Initial Term pricing protects ComEd from any risk that nuclear plant  
234 performance deteriorates during the term of the agreement. Naturally, ComEd does not  
235 expect that the same team that has rescued the nuclear units from the prior performance  
236 patterns and established an admirable operating record would allow the units to return to  
237 their prior performance patterns. Nonetheless, under the PPA, ComEd will no longer  
238 bear that risk; it will become Exelon Genco's risk. ComEd will pay prices based on high  
239 operating performance levels regardless of actual performance. This not only protects  
240 ComEd from the risk, but also provides Exelon Genco with a significant incentive to  
241 keep the plants running well. Any operating performance slippage will accrue to the sole  
242 detriment of Exelon Genco.

243 Q. Does the Transfer alter or change any risk relating to availability of supply during the  
244 2001-2004 period?

245 A. No, the Transfer does not alter any risk relating to the safety and reliability of service  
246 provided by ComEd during that period. As I have discussed previously, ComEd will  
247 obtain its source of supply from Exelon Genco under the PPA. Exelon Genco, which will

combine the ComEd and Power Team wholesale marketing talent and operations, will serve ComEd from the same resources that ComEd has today: the ComEd nuclear units, the various Fossil Plant Agreements and market sources. Accordingly, the Transfer will not limit or reduce the resources available to serve ComEd.

Moreover, in no respect will the management of ComEd's power supply be inferior to the management of ComEd's resource portfolio today. The addition of the Power Team expertise to the management of ComEd's supply needs should enhance ComEd's reliability. Power Team brings to the table a highly successful wholesale marketing operation, with a proven track record.

Further, the PPA provides for the same type of load and resource planning that ComEd engages in today. Under the PPA, each year ComEd and Exelon Genco will engage in a planning process for the following year, which will result in an annual load plan. This process will enable Exelon Genco to procure whatever additional resources that may be necessary to satisfy ComEd's needs the following year. I wish to emphasize that the PPA expressly provides that the annual load plan is designed to provide a reasonable basis on which to estimate ComEd's service requirements, and will not relieve Exelon Genco from its obligations to provide ComEd the actual full requirements needed to meet ComEd's service obligations to retail and retained load.

After the PPA expires, ComEd would obtain its then-required supply from market sources, which could include Exelon Genco.

Q. Do you expect that market sources will be adequate at that time?

A. Yes. In fact, we expect that the power supply market at that time will include many more supply options than it does today. A substantial amount of new capacity has been

271 proposed in Illinois alone. While not all of the proposed facilities may be built, ComEd  
272 anticipates that a significant number will and that there will be no difficulty procuring  
273 replacement supply upon expiration of the PPA. I also note that two other Illinois electric  
274 utilities, Illinois Power Company and Central Illinois Public Service Company,  
275 transferred their electric generating assets to a generating company affiliate and entered  
276 into supply contracts with those affiliates that expire on December 31, 2004.

277 Q. Has ComEd prepared a load and resource plan?

278 A. Yes. The Company has prepared a load and resource plan for the 2000-04 study period  
279 that assumes 100% load retention. The plan accompanies the Notice as Appendix K  
280 (confidential). The plan shows that in some years, at 100% load retention, currently  
281 contracted Genco resources would produce a reserve margin below a 15% reserve  
282 margin, computed in accordance with the MAIN methodology. To the extent that Genco  
283 requires additional resources to serve the ComEd load, Genco would arrange to purchase  
284 additional resources to ensure reliable service. The attached plan also indicates the level  
285 of planned resources that other entities plan to install in the ComEd control area, which,  
286 in the aggregate, greatly exceeds the amount by which currently contracted Genco  
287 resources would fall below a 15% reserve margin at 100% load retention. In addition to  
288 the new control area resources referenced in the plan, there will be other resources  
289 outside of the ComEd control area that could be imported in the event, and to the extent,  
290 necessary. ComEd also has the ability to utilize additional load management measures.

291 I note also that the transfer of ComEd's physical generating assets and contractual  
292 generation resources to Genco does not change the plan in any respect from what would  
293 be the case were the transfer not to occur. The plan would be exactly the same if ComEd

were to maintain ownership of the nuclear plants and other capacity rights. Accordingly, the transfer does not adversely affect ComEd's ability to provide reliable service in any respect.

Q. Will this reorganization have an impact on the efficiency of Northern Illinois' wholesale market?

A. By dividing ComEd into a Generation and Distribution organization, we hope to stimulate the development of a more efficient energy market in Northern Illinois. As the Exelon Genco and ComEd grow as two separate organizations, they may independently transact in an open wholesale market and help to foster institutions that increase market liquidity and efficiency.

Q. Will the Transfer interfere with transmission or distribution operations?

A. No. ComEd will continue to own and operate its transmission and distribution systems. The Transfer will not affect, in any respect or to any degree, ComEd's participation in the Midwest Independent System Operator.

The Transfer will not interfere with or disrupt the Company's continuing efforts to improve the performance of its distribution system. To the contrary, the Transfer will separate the distribution and generation functions, and will facilitate heightened management focus on distribution system operations.

The Transfer also will not adversely affect the Company's ability to invest in distribution system enhancements. As the Company's accompanying ROE analyses demonstrate, the Transfer will have no adverse effect on ROE. Accordingly, the Company's plans to improve its distribution system will be unaffected by the Transfer.

316 Q. What two sets of questions did the Commission pose to the parties in Docket No. 00-  
317 0244?

318 A. The two sets of questions were:

319 1) Will Commonwealth Edison have the ability to provide a reliable source of  
320 electricity to its retail customers who opt to take service under the power purchase  
321 option ("PPO") required by Section 16-110(b) if the transactions described in the  
322 Section 16-111(g)(vi) notice are completed? Will there be a reliable source of  
323 electricity if there is no material change in the Neutral Fact Finder ("NFF")-  
324 determined market value for customers who shift to the PPO between now and  
325 Summer 2000, as well as for customers who shift to the PPO in future summers  
326 (again, assuming no material change in the NFF-determined market value of  
327 power and energy)?

328 2) The Notice contemplates the transfer by Commonwealth Edison of a number of  
329 nuclear power plants ("hard assets") that it currently owns. These assets  
330 constitute a significant component of ComEd's balance sheet in terms of  
331 creditworthiness and as perceived by the financial industry. What will be the  
332 nature of the assets that ComEd receives in return for the transfer of these hard  
333 assets? Will any perceived difference in the creditworthiness of ComEd before  
334 and after the contemplated transfer give rise to increased costs of debt, or any  
335 other impact on the financial perception of ComEd that could give rise to a  
336 claimed need for higher rates for electricity or delivery services? What financial  
337 guarantees will be given by third parties as further security for the assets received  
338 by ComEd in return for the nuclear power plants?



339 Q. Will the Transfer impair ComEd's ability to provide reliable electric service to customers  
340 exercising their PPO option this summer and in subsequent years?

341 A. No, it will not. The question raised by the Commission refers to the possibility of  
342 customers switching to the PPO shortly before or during summer months. To the extent  
343 that such switching may occur, ComEd's ability to serve the switching load will not be  
344 lessened to any degree by the transfer of ComEd's remaining generating assets and  
345 resources to Exelon Genco. The ability to serve PPO load is a planning and supply issue.  
346 The planning process and ComEd's ability to serve PPO load -- either this year or in  
347 subsequent years -- will be utterly unaffected by the transfer of generating assets to  
348 Exelon Genco. Currently, ComEd plans for its load on an annual basis. This year, prior  
349 to the Transfer, ComEd plans to serve that load using a mix of resources, which include  
350 its nuclear generating plants, capacity under contract and other market sources. After the  
351 Transfer, ComEd will still plan for its load on an annual basis. ComEd will plan to serve  
352 this load through the mandatory transition period through Exelon Genco, which will use  
353 the same mix of resources (the nuclear plants, contract capacity and other market sources)  
354 to serve ComEd that ComEd itself would have used.

355 Q. Will Exelon Genco be required to supply ComEd with the capacity needed to serve PPO  
356 load during the mandatory transition period?

357 A. Yes, under the PPA, Exelon Genco will be required to supply ComEd's full load  
358 requirements during the mandatory transition period. While Exelon Genco and ComEd  
359 will cooperate to plan for ComEd's needs, Exelon Genco's obligation will not be limited  
360 to ComEd's planned or anticipated load. Exelon Genco must provide capacity and  
361 energy adequate to cover ComEd's actual load requirements.

362 Q. Will the use of the NFF to determine the price under the PPO affect ComEd's ability to  
363 serve PPO load?

364 A. No, the ability to serve PPO load is not dependent on the particular mechanism used to  
365 set the PPO price. Again, this is a planning and supply issue. It is not a pricing issue.

366 Q. What cost of service issues have been posed by the Commission?

367 A. The Commission has asked, essentially, whether the Transfer will adversely affect the  
368 Company's cost of capital to an extent that increases the Company's cost of service.

369 Q. Will the transfer of nuclear assets negatively affect the Company's cost of capital?

370 A. No, the Transfer will not adversely affect either the cost of debt or the cost of equity.

371 While, as the Commission notes, the Transfer will reduce the level of "hard assets" on the  
372 Company's books, it is far more significant from a lender's credit-assessment perspective  
373 that the Transfer will greatly reduce ComEd's generation-related default risk. Further,  
374 the Transfer is not expected to significantly affect ComEd's required return on equity.

375 Q. Please discuss the effect of the Transfer on the Company's debt ratings.

376 A. Debt ratings are issued by independent rating agencies. The primary risk that debt rating  
377 agencies address is the risk of default. In the past, the rating agencies used a single set of  
378 criteria for all investor-owned electric utilities ("electric IOUs"); because virtually all  
379 electric IOUs were vertically integrated, and there was no significant difference in the  
380 default risk profiles of the generation, transmission and distribution functions. All three  
381 were subject to rate of return regulation, and electric IOUs were guaranteed an  
382 opportunity to earn a reasonable rate of return. Today, however, competition has been  
383 introduced in the generation business line, at both the wholesale and, in states such as  
384 Illinois, the retail levels. The risks associated with competition are likely to make the

385 default risk of a debt investment in a generation business greater than the default risk  
386 associated with a debt investment in a wires business (transmission and distribution).

387 Accordingly, as electric utilities are separating their generation and wires businesses into  
388 different companies, the rating agencies use criteria specific to the type of business(es) in  
389 which the company engages.

390 Q. Have the ratings agencies themselves indicated that they consider the default risk of a  
391 debt investment in a wires business to be lower than the default risk of a debt investment  
392 in a generating business?

393 A. Yes, they have. The rating agencies have indicated that the financial parameters  
394 considered appropriate for measuring the debt default risk of a vertically integrated  
395 electric utility company are not necessarily suitable for assessing the debt default risk of a  
396 wires company. In particular, the agencies' general assessment is that companies electing  
397 to focus on generation will need higher cash flow coverages and stronger capitalization  
398 ratios (i.e., more equity) to maintain the same debt rating as the generation market  
399 becomes more competitive. As a result, the general view is that transmission and  
400 distribution companies are likely to experience relatively higher credit ratings for similar  
401 levels of debt-protection.

402 Q. What is the significance of the rating agencies' view for ComEd's post-Transfer credit  
403 ratings?

404 A. Of course, we cannot predict exactly what action each of the rating agencies will take  
405 with respect to ComEd after the Transfer. However, the most significant factor in  
406 assessing ComEd's debt creditworthiness will be the degree to which it has protected  
407 itself from the debt default risk associated with the marketing of generation. As I

408 explained above, and as the Company explained in the Notice, a principal purpose of the  
409 Transfer is do just that -- isolate ComEd to the greatest extent possible from financial  
410 risks associated with the ownership, operation and marketing of generation.

411 Q. Do you agree that the nuclear assets constitute "a significant component of ComEd's  
412 balance sheet in terms of its creditworthiness and as perceived by the financial industry"?

413 A. I agree that historically an electric IOU's balance sheet has played a significant role in  
414 credit risk assessment. The rating agencies have moved away from reliance on balance  
415 sheet measures, however, for a variety of reasons. The principal reason involves lack of  
416 uniformity in asset valuation practices and depreciation policies, particularly as energy  
417 companies become global in scope. The agencies focus instead on levels of debt, cash  
418 and cash flow.

419 Q. Will the Transfer adversely affect the Company's cost of equity for either bundled  
420 electric service or delivery service?

421 A. No, there is no reason to believe that the Company's required return on equity will be  
422 any higher after the Transfer than before. Moreover, I would note that, during the  
423 mandatory transition period, the Company's ability to seek an increase in rates for  
424 bundled electric service (generation and delivery services) is governed by Section 16-  
425 111(d) of the Illinois Public Utilities Act. Mr. Berdelle has submitted analyses  
426 demonstrating that ComEd would not qualify for an increase in bundled electric rates  
427 under that test.

428 Q. The Commission expressed an interest in what assets ComEd is receiving in exchange for  
429 the nuclear assets. What consideration is ComEd receiving in return for the assets being  
430 transferred?

431 A. The principal consideration ComEd receives is ComEd stock that will be held by Exelon  
432 at the time of the Transfer. As described in the Notice, the Transfer will occur by ComEd  
433 first transferring the assets to a subsidiary of ComEd. ComEd will then exchange its  
434 stock in the subsidiary with Exelon for ComEd common stock held by Exelon. ComEd  
435 will then retire that stock.

436 Q. Does the nature of the assets being received by ComEd as consideration require that any  
437 additional financial guarantees be given as security?

438 A. No, it does not.

439 Q. Does this conclude your testimony?

440 A. Yes.